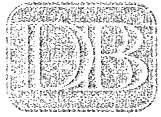


TRIPP COUNTY WATER USER DISTRICT  
FINANCIAL REPORT  
DECEMBER 31, 2013 and 2012

# TRIPP COUNTY WATER USER DISTRICT

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*DeSmet and Biggs, LLP*  
Certified Public Accountants

Dennis O. DeSmet, CPA  
Teresa A. Biggs, CPA

Lonnie J. Hosman, CPA  
Megan L. Kinder, CPA

Jenny L. Donovan, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Tripp County Water User District  
Winner, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Tripp County Water User District of Winner, South Dakota, (District) as of December 31, 2013 and for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 30, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Tripp County Water User District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tripp County Water User District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tripp County Water User District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Tripp County Water User District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

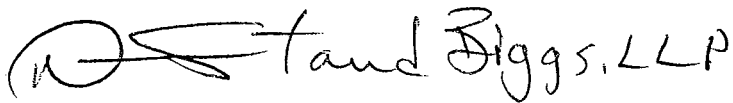
REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Tripp County Water User District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

 O. Stand Biggs, LLP

June 30, 2014

# TRIPP COUNTY WATER USER DISTRICT

## SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

### Prior Audit Findings

2012-01

A reportable condition and material weakness was reported for a lack of segregation of duties for revenues, expenditures and payroll systems.

### Corrective Action Plan:

The District Board President is the contact person responsible for the corrective action plan for these comments. These comments are the result of the size of the Tripp County Water User District which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties. The District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical.

TRIPP COUNTY WATER USER DISTRICT  
SCHEDULE OF CURRENT AUDIT FINDINGS

Current Audit Findings

There are no current audit findings to discuss.



# *DeSmet and Biggs, LLP*

## Certified Public Accountants

Dennis O. DeSmet, CPA  
Teresa A. Biggs, CPA

Lonnie J. Hosman, CPA  
Megan L. Kinder, CPA

Jenny L. Donovan, CPA

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Tripp County Water User District  
Winner, South Dakota

#### **Report on Financial Statements**

We have audited the accompanying financial statements of the Tripp County Water User District, South Dakota, as of and for the years ended December 31, 2013 and 2012, as listed in the Table of Contents.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Members of American Institute of Certified Public Accountants • South Dakota Society of Certified Public Accountants*

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## INDEPENDENT AUDITOR'S REPORT (continued)

### **Opinion**

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Tripp County Water User District, South Dakota, as of December 31, 2013 and 2012, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

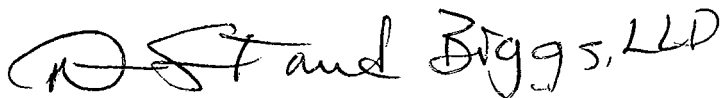
### **Other Matters**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinion on the financial statements that comprise the Tripp County Water User District financial statements as a whole. The introductory section is not a required part of the financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "RST and Biggs, LLP". The signature is written in a cursive, flowing style.

June 30, 2014



**Tripp County Water User District  
1052 West 1<sup>st</sup> Street  
Winner, South Dakota 57580**

**Phone: 605-842-2755**

**Fax: 605-842-1621**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Tripp County Water User District's financial performance provides an overview of the Water District's financial activities for the fiscal year ended December 31, 2013. Please read it in conjunction with the Water District's financial statements, which begin on page 14.

**FINANCIAL HIGHLIGHTS**

- During 2013, the Water District's capital assets increased by \$680,289 as a result of water system improvements and equipment purchases and disposals. During 2012 capital assets increased by \$248,170 as a result of water system improvements and equipment purchases and disposals.
- For the 2013 fiscal year, water sales for the District were \$2,119,861, a decrease of 2.36% from 2012, while operating expenses were \$1,963,515, an increase of 0.25% from 2012. For the 2012 fiscal year, water sales were \$2,171,207, an increase of 24.81% from 2011, while operating expenses were \$1,958,703, an increase of 2.65% from 2011.
- The Water District had an increase of \$211,751 in net position in the 2013 fiscal year and an increase of \$220,184 in net position in the 2012 fiscal year.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position (on pages 9 through page 10) provide information about the activities of the Water District as a whole and present a longer-term view of the Water District's finances.

## **REPORTING THE WATER DISTRICT AS A WHOLE**

Our analysis of the Water District as a whole begins on page 9. One of the most important questions asked about the Water District's finances is, "Is the Water District as a whole better off or worse off as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the Water District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Water District's net position and changes in them. You can think of the Water District's net position - the difference between assets and liabilities - as one way to measure the Water District's financial health, or financial position. Over time, increases or decreases in the Water District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Water District's water revenue base and the condition of the Water District's water distribution system, to assess the overall health of the Water District.

In the Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position, the Water District only has one type of activity.

- Business-type activities – The Water District charges a fee to customers to help it cover all of the cost of operating the water distribution system.

## **REPORTING THE WATER DISTRICT'S SIGNIFICANT FUNDS**

Because the Water District only has one fund (a proprietary fund), no fund statements were presented in the financial reports. The proprietary fund uses the following approach in its financial statement presentation.

- Proprietary funds – When the Water District charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position. In fact, the Water District's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flow, for proprietary funds.

## THE WATER DISTRICT AS A WHOLE

The Water District's combined net position changed from 2012 to 2013 – increasing from \$7.35 million to \$7.56 million, for a \$212 thousand increase in net position. From 2011 to 2012, combined net position increased from \$7.13 million to \$7.35 million, for a \$220 thousand increase. Our analysis below will focus on the net position (Table 1) and changes in net position (Table 2) of the Water District's business-type activities.

Table 1  
Net Position

	Business-type Activities		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 2,800,727	\$ 2,605,316	\$ 1,992,773
Capital assets	<u>13,615,579</u>	<u>13,938,361</u>	<u>14,742,074</u>
Total assets	<u>16,416,306</u>	<u>16,543,677</u>	<u>16,734,847</u>
Long-term debt outstanding	7,945,772	8,402,060	8,848,071
Other liabilities	<u>909,436</u>	<u>792,270</u>	<u>757,613</u>
Total liabilities	8,855,208	9,194,330	9,605,684
Invested in capital assets, net of debt	5,213,930	5,091,260	5,459,628
Restricted	547,175	553,093	446,232
Unrestricted (deficit)	<u>1,799,993</u>	<u>1,704,994</u>	<u>1,223,303</u>
Total net position	<u>7,561,098</u>	<u>7,349,347</u>	<u>7,129,163</u>
Total liabilities and net position	<u>\$ 16,416,306</u>	<u>\$ 16,543,677</u>	<u>\$ 16,734,847</u>

Net position of the Water District increased by 2.88% (\$7.56 million compared to \$7.35 million) in 2013. In 2012, net position increased by 3.09% (\$7.35 million compared to \$7.13 million). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased by 5.57% (\$1.80 million compared to \$1.70 million) in 2013 and increased by 39.38% (\$1.70 million compared to \$1.22 million) in 2012.

Table 2  
Changes in Net Position

	Business-type Activities		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Revenues</b>			
Program revenues:			
Water sales	\$ 2,119,861	\$ 2,171,207	\$ 1,739,555
Rent	59,090	58,400	33,804
Other operating revenue	277,682	232,565	192,201
Nonoperating revenues:			
Interest income	10,053	14,071	9,455
Net capital contributions	-	-	23,592
Total revenues	<u>2,466,686</u>	<u>2,476,243</u>	<u>1,998,607</u>
<b>Expenses</b>			
Operating expenses:			
Cost of sales & service	558,898	585,446	546,635
Administrative	380,714	304,355	287,852
Depreciation	1,023,903	1,068,902	1,073,590
Nonoperating expenses:			
Interest expense	291,420	297,356	308,577
Transfer to/(from) restrictive reserves	(5,918)	106,861	30,074
Total expenses	<u>2,249,017</u>	<u>2,362,920</u>	<u>2,246,728</u>
Excess of revenues over expenses	217,669	113,323	(248,121)
Increase/(Decrease) in restricted net position	<u>(5,918)</u>	<u>106,861</u>	<u>30,074</u>
Increase/(Decrease) in net position	211,751	220,184	(218,047)
Total Net Position - Beginning	<u>7,349,347</u>	<u>7,129,163</u>	<u>7,347,210</u>
Total Net Position - Ending	<u>\$ 7,561,098</u>	<u>\$ 7,349,347</u>	<u>\$ 7,129,163</u>

In 2013, the total revenues of the Water District decreased by \$9,557, which includes \$0 in government grants. In 2012, the total revenues increased by \$477,636, which includes \$0 in government grants. The total cost of all programs and services decreased by \$1,124 in 2013, compared to an increase of \$39,405 in 2012.

The Water District's revenues from its operating activities (see Table 2) decreased by 0.22% in 2013 compared to an increase of 25.27% in 2012 (\$2,456,633 in 2013, \$2,462,172 in 2012, and \$1,965,560 in 2011) while operating expenses increased by 0.25% in 2013 and increased by 2.65% in 2012.

## **THE WATER DISTRICT'S FUNDS**

As the Water District completed the year, it reported a fund balance of \$7,561,098, which was more than \$7,349,347 in 2012, which was more than \$7,129,163 in 2011. The following events that caused changes in fund balances should be noted:

- As shown in Note 3 to the financial statements, the Water District spent \$701,364 this year on the purchase of capital assets, ninety-one percent of that being spent on water system improvements. The District spent \$269,443 in 2012 on the purchase of capital assets.
- As shown in Note 5 to the financial statements, the Water District made principal payments during 2013 of \$445,452, and acquired no new debt. As a result, the Water District's net debt decreased by \$445,452. In 2012, the Water District made principal payments of \$435,345 and acquired no new debt.
- During 2013 and 2012, the Water District also received \$83,020 and \$141,229, respectively, in "Tap Fees" from new hook-ups from its members, which is included as a component of other operating revenue on the statement of changes in net position.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2013, the Water District had \$29,934,715 invested in a broad range of capital assets, including land, buildings, equipment, and the water distribution system. (See Table 3). This amount represents a net increase of capital assets owned by the Water District (including additions and deductions) of \$680,289. At the end of 2012, the Water District had \$29,254,426 invested in capital assets, representing a net increase of \$248,170.

Table 3  
Capital Assets at Year-end  
(Net of Depreciation)

	Business-type Activities		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land	\$ 645,247	\$ 645,247	\$ 645,247
Buildings	392,935	345,306	343,215
Equipment	547,460	553,849	544,004
Water system	28,005,006	27,710,024	27,473,790
Construction in progress	344,067	-	-
	<u>29,934,715</u>	<u>29,254,426</u>	<u>29,006,256</u>
Less depreciation	16,319,136	15,316,065	14,264,182
Totals	<u><u>\$ 13,615,579</u></u>	<u><u>\$ 13,938,361</u></u>	<u><u>\$ 14,742,074</u></u>

Major additions included:

2013: Water system improvements.

2012: Water system improvements.

The Water District's fiscal year 2014 capital plans consist of continuing internal upgrade projects including replacing meters and meter pits. The total expected cost for these projects is approximately \$364,200 and will be paid entirely through internal funding.

The Water District is currently in the beginning stages of an internal upgrade project, which is scheduled to begin in 2015. This project will consist of upgrading booster pump stations, paralleling lines, installing two new water towers, and adding new customers. The estimated cost is approximately \$11.5 million and has been secured by a South Dakota Department of Natural Resources loan.

## Debt

At year-end, the Water District had \$8.40 million in bonds and notes outstanding, versus \$8.85 million last year and \$9.28 million in 2011 – a decrease of 5.04% in 2013 and a decrease of 4.69% in 2012 – as shown in Table 4.

Table 4  
Outstanding Debt at Year-end

	Business-type Activities		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Loans payable	\$ 6,726,649	\$ 6,902,101	\$ 7,072,446
Refunding bonds payable	<u>1,675,000</u>	<u>1,945,000</u>	<u>2,210,000</u>
Totals	<u>\$ 8,401,649</u>	<u>\$ 8,847,101</u>	<u>\$ 9,282,446</u>

More detailed information about the Water District's long-term liabilities is presented in Note 5 to the financial statements.

#### **CONTACTING THE WATER DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Water District's finances and to show the Water District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Water District office at 1052 West 1st Street, Winner, SD 57580.

## STATEMENTS OF NET POSITION



TRIPP COUNTY WATER USER DISTRICT

STATEMENTS OF NET POSITION

ASSETS

	December 31,	
	2013	2012
Current Assets		
Cash and cash equivalents	\$ 1,581,178	\$ 1,515,237
Accounts receivable	460,848	317,632
Inventory	149,917	159,238
Prepaid and other current assets	<u>39,915</u>	<u>37,422</u>
Total current assets	<u>2,231,858</u>	<u>2,029,529</u>
Noncurrent Assets		
Restricted assets		
Cash and cash equivalents	433,599	439,972
Certificates of deposit	<u>113,576</u>	<u>113,121</u>
	<u>547,175</u>	<u>553,093</u>
Capital assets		
Land	645,247	645,247
Buildings	392,935	345,306
Equipment	547,460	553,849
Water system	28,005,006	27,710,024
Construction in progress	<u>344,067</u>	<u>-</u>
	<u>29,934,715</u>	<u>29,254,426</u>
Less accumulated depreciation	<u>(16,319,136)</u>	<u>(15,316,065)</u>
	<u>13,615,579</u>	<u>13,938,361</u>
Other Noncurrent Assets		
Loan origination fees, net of amortization	20,000	21,000
Other noncurrent assets	<u>1,694</u>	<u>1,694</u>
	<u>21,694</u>	<u>22,694</u>
Total noncurrent assets	<u>14,184,448</u>	<u>14,514,148</u>
Total Assets	<u>\$16,416,306</u>	<u>\$ 16,543,677</u>

The accompanying notes are an integral part of  
these financial statements.

# LIABILITIES AND NET POSITION

	December 31,	
	2013	2012
Current Liabilities		
Accounts payable	\$ 64,230	\$ 62,404
Accrued interest	46,240	46,796
Unearned revenues	339,661	235,368
Current maturities of long-term debt	455,877	445,041
Other current liabilities	3,428	2,661
Total current liabilities	<u>909,436</u>	<u>792,270</u>
Noncurrent Liabilities, Net of Current Maturities		
Loans payable	6,545,772	6,727,060
Bonds payable	1,400,000	1,675,000
Total noncurrent liabilities	<u>7,945,772</u>	<u>8,402,060</u>
Net Position		
Net investment in capital assets	5,213,930	5,091,260
Restricted debt covenants for debt service and reserves	547,175	553,093
Unrestricted	1,799,993	1,704,994
Total net position	<u>7,561,098</u>	<u>7,349,347</u>
Total Liabilities and Net Position	<u>\$ 16,416,306</u>	<u>\$ 16,543,677</u>

TRIPP COUNTY WATER USER DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Years Ended December 31,	
	2013	2012
Operating Revenues:		
Water sales	\$ 2,119,861	\$ 2,171,207
Rent	59,090	58,400
Other	<u>277,682</u>	<u>232,565</u>
Total operating revenue	<u>2,456,633</u>	<u>2,462,172</u>
Operating Expenses:		
Costs of sales and service	558,898	585,446
Administrative	380,714	304,355
Depreciation	<u>1,023,903</u>	<u>1,068,902</u>
Total operating expenses	<u>1,963,515</u>	<u>1,958,703</u>
Operating income	<u>493,118</u>	<u>503,469</u>
Nonoperating Revenues (Expenses):		
Interest income	10,053	14,071
Interest expense	<u>(291,420)</u>	<u>(297,356)</u>
Total nonoperating revenues (expenses)	<u>(281,367)</u>	<u>(283,285)</u>
Net income	211,751	220,184
Total Net Position - Beginning as restated	<u>7,349,347</u>	<u>7,129,163</u>
Total Net Position - Ending	<u>\$ 7,561,098</u>	<u>\$ 7,349,347</u>

The accompanying notes are an integral part of  
these financial statements.

## STATEMENTS OF CASH FLOWS

TRIPP COUNTY WATER USER DISTRICT

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2013	2012
Cash Flows From Operating Activities		
Receipts from customers	\$ 2,080,938	\$ 2,084,722
Payments to suppliers	(533,295)	(496,618)
Payments to and on behalf of employees	(396,101)	(382,626)
Other receipts	<u>336,982</u>	<u>290,965</u>
Net Cash Provided by Operating Activities	<u>1,488,524</u>	<u>1,496,443</u>
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets	(701,121)	(265,189)
Principal paid on capital debt	(445,451)	(435,345)
Interest expense paid	<u>(291,976)</u>	<u>(300,658)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(1,438,548)</u>	<u>(1,001,192)</u>
Cash Flows From Investing Activities		
Purchase of certificates of deposit	(455)	(5,077)
Interest received	<u>10,047</u>	<u>13,611</u>
Net Cash Provided by Investing Activities	<u>9,592</u>	<u>8,534</u>
Net Increase in Cash and Cash Equivalents	59,568	503,785
Cash and Cash Equivalents - Beginning of Year	<u>1,955,209</u>	<u>1,451,424</u>
Cash and Cash Equivalents - End of Year	<u>\$ 2,014,777</u>	<u>\$ 1,955,209</u>

The accompanying notes are an integral part of  
these financial statements.

	Years Ended December 31,	
	2013	2012
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities:		
Operating income	\$ 493,118	\$ 503,469
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,023,903	1,068,902
Amortization	1,000	1,000
Changes in assets and liabilities:		
Receivables	(143,216)	(98,908)
Inventory	9,321	(5,694)
Prepaid expenses	(2,488)	381
Accounts payable	1,826	12,209
Deferred revenues	104,293	12,423
Other current liabilities	767	2,661
Net Cash Provided by Operating Activities	<u>\$ 1,488,524</u>	<u>\$ 1,496,443</u>
Supplemental Disclosure of Noncash Activities		
Basis of pickup traded for new pickup	<u>\$ -</u>	<u>\$ 4,255</u>

# TRIPP COUNTY WATER USER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2013

### Note 1. Summary of Significant Accounting Policies

#### Reporting Entity

The Tripp County Water User District (the District) was created in 1972 for the purpose of financing, constructing, maintaining and operating a rural water distribution system. The District was organized under the authority of Chapter 46A-9-16 of the South Dakota Codified Laws of 1967, as amended, as a water user district.

The District operates under the direction of a board of directors who are elected by the members of the district and provides safe drinking water to its members throughout South Central South Dakota.

#### Basis of Presentation

All activities of the District accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

#### Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The financial statements are presented using the economic resources measurement focus, applied on the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

#### Deposits, Investments and Cash Equivalents

The District considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents, including restricted cash and cash equivalents. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

# TRIPP COUNTY WATER USER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (continued)

#### Deposits, Investments and Cash Equivalents (continued)

Deposits – The District’s deposits are made in qualified public depositories as defined by SDCL 4-6A-1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or better, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

The District’s cash and cash equivalents consisted only of checking and savings accounts, certificates of deposit, and money market accounts. Investments on the Balance Sheet consist of certificates of deposit at December 31, 2013 and 2012. All of these accounts are insured or collateralized in the District’s name.

#### *Interest Rate Risk:*

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### *Credit Risk:*

State law limits eligible investments of the District as discussed above. The District has no investment policy that would further limit its investment choices.

#### *Concentration Risk:*

The District places no limit on the amount that may be invested in any one issuer.

#### *Custodial Credit Risk:*

The District does not have a deposit policy for custodial credit risk, which is the risk that, in the event of a depository failure, the District’s deposits may not be returned to it. As of December 31, 2013, none of the District’s deposits were exposed to custodial credit risk.



# TRIPP COUNTY WATER USER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (continued)

#### Federal Income Taxes

The District qualifies as a political subdivision incorporated under the laws of South Dakota and is not subject to Federal Income Taxes.

#### Inventory

The District's inventories, consisting of parts, materials and supplies, are stated at the lower of cost or market, using the first-in, first-out method.

#### Property, Plant and Equipment

Assets in property, plant and equipment are stated at cost. The District provides for depreciation on a straight-line basis at an annual rate which will amortize the undepreciated cost of depreciable property over estimated remaining service lives. The cost of current repairs and minor replacements is charged to appropriate operating expense and clearing accounts, and the cost of renewals and betterments is capitalized. When property, plant and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Estimated useful lives for financial reporting purposes are as follows:

	<u>Years</u>
Vehicles	3-5
Equipment	5-12
Buildings	20-35
Water System	20-40

The District currently capitalizes all property, plant and equipment purchases exceeding \$5,000 that have a useful life exceeding one year.

#### Unearned Revenues

In November and December of each year the District pre bills minimum amounts for the next year's water usage. These amounts (both collected and uncollected at year-end) are shown as unearned revenues in the accompanying financial statements.

#### Capitalized Interest

Interest costs are capitalized when incurred by the District on debt where proceeds are used to finance the construction of assets. Interest earned on proceeds, if any, of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. There was no capitalized interest in 2013 or 2012.

#### Revenue Recognition

Revenues are recorded on the basis of cycle billings rendered. Unbilled service amounts are not recognized until billed, and are considered immaterial.

# TRIPP COUNTY WATER USER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (continued)

#### Operating Revenues and Expenses

Operating revenues and expenses for the District are those that result from providing services and include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

#### Net Position

Equity is classified as net position and is displayed in three components:

1. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position – All other net positions that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

#### Accumulated Unpaid Vacation and Sick Leave

Employees earn 12 to 18 days of annual leave per calendar year depending upon length of employment. In the event of termination, an employee is reimbursed for only unused accumulated annual leave. Employees are required to use their accumulated annual leave in the year in which it is earned; if not used, the annual leave is lost. Therefore, there is no accrual for annual leave at the end of the calendar year.

Sick leave is accumulated by full time employees at a rate of 1 day per month of employment, not to exceed 180 days. No cash payment will be made for sick leave upon termination, therefore no accrual is recognized.

#### Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

# TRIPP COUNTY WATER USER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Restricted Assets

Restricted assets consisted of the following at December 31,

	2013	2012
Reserve deposit required by FmHA	\$ 113,576	\$ 113,121
Funds on deposit with fiscal agent for purpose of interest and principal payments on 2010 Bonds	<u>433,599</u>	<u>439,972</u>
	<u>\$ 547,175</u>	<u>\$ 553,093</u>

### Note 3. Capital Assets

The following is a summary of changes in capital assets:

	Balance 12/31/2012	Additions	Deletions	Balance 12/31/2013
Land	\$ 645,247	\$ -	\$ -	\$ 645,247
Buildings	345,306	47,629	-	392,935
Equipment	553,849	14,686	(21,075)	547,460
Water System	27,710,024	294,982	-	28,005,006
Construction-In-Progress	<u>-</u>	<u>344,067</u>	<u>-</u>	<u>344,067</u>
Totals	\$ 29,254,426	\$ 701,364	\$ (21,075)	\$ 29,934,715
Less Accumulated Depreciation for				
Buildings	67,522	12,604	-	80,126
Equipment	411,013	39,516	(20,832)	429,697
Water System	<u>14,837,530</u>	<u>971,783</u>	<u>-</u>	<u>15,809,313</u>
Total accumulated depreciation	<u>15,316,065</u>	<u>1,023,903</u>	<u>(20,832)</u>	<u>16,319,136</u>
Net Capital Assets	<u>\$ 13,938,361</u>	<u>\$ (322,539)</u>	<u>\$ (243)</u>	<u>\$ 13,615,579</u>

The construction-in-progress consists of a new well and an internal systems upgrade. Approximately \$310,000 has been expended on the new well and is substantially completed. It has been funded with cash flows from operations. The system upgrade is in the preliminary stages and is expected to cost in excess of \$11,000,000. The District expects to fund it with grants, loans, and cash flows.

### Note 4. Loan Origination Fees

Amortization expense of \$1,000 and \$1,000 has been charged to operations for the years ending December 31, 2013 and 2012, respectively.

# TRIPP COUNTY WATER USER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Long-Term Debt

The following is a summary of changes in long-term debt:

	Debt 12/31/2012	Retired	Debt 12/31/2013	Due Within One Year
USDA FmHA Loans	\$ 3,861,769	\$ (58,201)	\$ 3,803,568	\$ 60,288
Berkadia Finance	150,605	(16,345)	134,260	17,247
State of SD - State Revolving Fund	2,889,727	(100,906)	2,788,821	103,342
2010 Bond Indebtedness	<u>1,945,000</u>	<u>(270,000)</u>	<u>1,675,000</u>	<u>275,000</u>
Total Debt	<u>\$ 8,847,101</u>	<u>\$ (445,452)</u>	<u>\$ 8,401,649</u>	<u>\$ 455,877</u>

Long-Term Debt consisted of the following at December 31,

	2013	2012
USDA-FmHA - 4.5%, payable in monthly installments of \$1,148, due January 2043.	\$ 222,801	\$ 226,489
USDA - FmHA 4.875%, payable in monthly installments of \$3,141, due November 2035.	505,584	518,360
USDA - FmHA 4.375%, payable in monthly installments of \$2,368, due June 2044.	477,477	484,887
USDA - FmHa - 4.125%, payable interest only in 2007, monthly installments of \$1,088, due December 2045.	231,508	234,964
USDA - FmHA - 4.125%, payable interest only in July, 2009, then monthly installments of \$10,741, due June 2048.	2,366,198	2,397,069
State of South Dakota - State Revolving Fund Loan, 0%, payable in quarterly installments of \$1,095, due October 2034.	92,028	96,410
State of South Dakota - State Revolving Fund Loan, 2.5%, payable in quarterly installments of \$41,546, due October 2034.	2,696,793	2,793,317
Berkadia Finance - 5%, payable in monthly installments of \$1,964, due July 2020.	134,260	150,605

# TRIPP COUNTY WATER USER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Long-Term Debt (continued)

	<u>2013</u>	<u>2012</u>
Water Revenue Refunding Bonds, Series 2010, due in annual installments of \$225,000 to \$545,000, plus interest ranging from 1.0% to 3.25%. Average coupon rate is 2.75%.	\$ 1,675,000	\$ 1,945,000
Total long-term debt	8,401,649	8,847,101
Less current maturities	(455,877)	(445,041)
	<u>\$ 7,945,772</u>	<u>\$ 8,402,060</u>

The State Revolving Fund Loans are secured by real estate, all goods and equipment.

The Bonds constitute an absolute and unconditional obligation of the District and shall be payable solely from its gross revenues and amounts held therefore by the Trustee under resolution.

The annual requirements to retire debt is as follows:

Year(s) Ended	Principal	Interest	Total Requirement
2014	\$ 455,877	\$ 281,324	\$ 737,201
2015	466,948	269,754	736,702
2016	478,230	256,471	734,701
2017	489,747	241,405	731,152
2018	751,511	225,940	977,451
2019-2023	1,059,522	941,842	2,001,364
2024-2028	1,198,419	759,936	1,958,355
2029-2033	1,410,723	547,632	1,958,355
2034-2038	823,826	334,915	1,158,741
2039-2043	714,939	191,565	906,504
2044-2048	551,907	49,941	601,848
	<u>\$ 8,401,649</u>	<u>\$ 4,100,725</u>	<u>\$ 12,502,374</u>

### Note 6. Retirement Plan

The Water District participates in the National Telephone Cooperative Association (NTCA), a cost-sharing, multiple employer defined benefit pension plan. This plan is authorized by SDCL 46A-9-78.

Employees who retire at or after age 65 are entitled to a retirement benefit, payable monthly for life. The benefit is based on final average earnings multiplied by a product of 2.168% multiplied by the sum of accumulated system and participant net contribution percents. Employees may retire at or after age 55 and receive reduced benefits. There are no vesting requirements. The retirement system also provides death benefits.

# TRIPP COUNTY WATER USER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Retirement Plan (continued)

The National Telephone Cooperative Association issues a stand alone financial report on an annual basis. Copies are available at the NTCA's service center located in Asheville, NC or can be reviewed at the Water District's administrative office.

Covered employees are required to contribute 5 percent of their gross salary to the plan. The District is required to contribute an amount equal to 8.4 percent of the employee's gross salary. These provisions are established by the District's Board of Directors and may be amended contingent upon approval by USDA Rural Development.

	2013	2012	2011
Contribution Information:			
Contribution Requirements (total of employee and employer contributions)	\$ 43,434	\$ 35,842	\$ 33,834
Water District Contribution	\$ 30,142	\$ 22,468	\$ 21,065
Percent of Covered Payroll	8.4%	8.4%	8.4%
Employee Contribution	\$ 13,292	\$ 13,374	\$ 12,769
Percent of Covered Payroll	5.0%	5.0%	5.0%

100% of the contribution requirements were contributed for all years.

### Note 7. Risks of Loss

Tripp County Water User District is exposed to certain risks of loss, such as fire, casualty, and damage to property. The Water District has purchased adequate commercial insurance to minimize the loss from these occurrences. There have been no settlements exceeding insurance coverage during the preceding fiscal year.

### Note 8. New Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. Under GASB No. 65, debt issuance costs for unregulated operations are to be recognized as an expense in the period incurred. As a result of this bond issuance costs incurred in 2010 that had been carried as an amortizable asset were removed and previously issued, December 31, 2012, financial statements were restated.

### Note 9. Subsequent Events - Date of Management Evaluation

District Management has evaluated subsequent events through June 30, 2014, the date on which these financial statements were completed.